

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

**IN THE MATTER OF
THE REPORT OF EXAMINATION OF
SMITH BURIAL & LIFE
INSURANCE COMPANY**

AID NO. 2006- 034

ADOPTION ORDER

Now on this day the matter of the Report of Examination as of December 31, 2005, of Smith Burial & Life Insurance Company ("Company"), Stamps, Arkansas, NAIC #84069, is taken under consideration by Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas ("Commissioner"), and as presented by Associate Counsel Nina Samuel Carter and the Finance Division of the Arkansas Insurance Department ("Department"). From the facts, matters, and law before her, the Commissioner finds as follows:

FINDINGS OF FACT

1. That the Commissioner has jurisdiction over the Company and the subject matter involved herein.
2. That the Company is an Arkansas-domiciled stipulated premium insurer authorized to transact Life and Accident and Health insurance in the State of Arkansas.
3. That pursuant to Ark. Code Ann. § 23-61-201, et seq., the Commissioner authorized and directed the Department to conduct a regular examination of the affairs, transactions, accounts, records and assets of the Company as of December 31, 2005.

4. That said examination was commenced by the Department on April 17, 2006, and completed on May 15, 2006.

5. That the verified Report of Examination was filed with the Department on June 8, 2006; it was then forwarded to the Company via certified mail on June 8, 2006. The Report was received by the Company on June 10, 2006, according to the certified mail return receipt returned to the Department.

6. That the Report of Examination contains the following comments and discrepancies concerning the Company's operations:

(a) That the Examiners noted in the Fidelity Bond and Other Insurance section of the Report that the company does not maintain insurance coverage to protect against assets lost due to dishonest acts of employees. It is recommended that the Company insure all individuals with access to cash and investments. This includes anyone with the ability to authorize wire transfers, write checks, or buy, sell, or transfer investments. The terms of the policy should be written to cover material acts of theft or dishonesty. It is recommended that the Company procure a fidelity bond in the minimum amount of \$75,000 as recommended by the National Association of Insurance Commissioners ("NAIC").

(b) The Department's contract actuary determined that the Company's aggregate reserve for life insurance policies was understated by approximately \$50,000 due to a transcription error that occurred when the detailed actuarial calculations were summarized for financial reporting. The examination found the reserves to be accurate and complete in all

other respects. An examination adjustment was made in order to increase aggregate reserves by \$50,000 and reduce unassigned surplus by the same amount.

(c) That the Examiners noted that the Company reported investments in the direct obligations of the Federal National Mortgage Association ("Fannie Mae") in the amount of approximately \$1.4 million and 30.5% of total admitted assets. These holdings exceed the 25% of total admitted asset limitation for federal agency obligations per Ark. Code Ann. §§ 23-63-805 and 23-63-812 by approximately \$338,000. Subsequent to examination fieldwork, the Department approved the Company's request to admit these securities and reduce its Fannie Mae holdings in the ordinary course of business. As a result, no examination adjustments were made to reflect this over investment.

(d) That the Examiners noted that the Company failed to report dividends to stockholders declared and unpaid in the amount \$18,000 as of December 31, 2005. An examination adjustment was made in order to accrue the unpaid dividends and reduce unassigned surplus by the same amount.

7. That the Company made no response or rebuttal to the Examiner's comments on the draft Report of Examination.

THEREFORE, pursuant to the provisions of Ark. Code Ann. § 23-61-205, the Commissioner hereby orders:

1. That the Examination Report, as filed with the Department, is hereby adopted;
2. That the Department shall forward a copy of this Order and the adopted Examination Report to the Company, by certified mail. The mailing to the Company shall include specimen affidavit forms for the Company's Directors to use in acknowledging they have received the adopted Report of Examination and this Order;
3. That within twenty (20) days of receipt of this Order and the adopted Examination Report, the Company shall file with the Department affidavits executed by each one of its Directors, stating under oath or affirmation that each has received a copy of this Order and the adopted Examination Report, pursuant to Ark. Code Ann. § 23-61-205(b)(1), et seq. and other laws as applicable;
4. That the adopted Examination Report shall be open for public inspection upon the expiration of thirty (30) days from the Company's receipt of this Order; and
5. That the Department, as a matter of course, reserves the right to consider administrative proceedings against Smith Burial & Life Insurance Company at a later date, although none are contemplated at this time.

IT IS SO ORDERED this 18th day of July, 2006.


JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER
STATE OF ARKANSAS